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Mexico

Citrus

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Report Highlights:
The Mexican orange production forecast for MY 1999 has been revised upward to approximately 3.1 million MT. Better weather during the second and third blooms (January and May) could bring higher production for the second and third orange harvests (May to August). FCOJ production forecast for MY 2000 remains low, similar to MY 1999 production.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Semi-Annual Report
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SECTION I. SITUATION AND OUTLOOK

The Economy

The outlook for the Mexican economy continues to brighten after the uncertainty caused by the economic crises in Russia, Asia, and Brazil during the latter part of 1998 and early 1999. The nearly tripling of world oil prices combined with the Government of Mexico's (GOM) conservative fiscal and monetary policies have led to considerable strength in the Mexican economy. Estimated at 3.5 percent, GDP growth for 1999 surpassed earlier expectations, and the Bank of Mexico made believers out of skeptical market analysts by finishing 1999 below its13 percent inflation target for the year, with an estimated 12.3 percent inflation rate.

That optimism is substantiated by the trade data. Mexico's exports increased 16 percent during the first eleven months of 1999 compared to the same period in 1998. Meanwhile, imports increased 12.9 percent and the trade deficit decreased by 36.7 percent during the same period. Higher oil prices and a more robust U.S. economy are the primary reasons for these improvements. The United States remains by far the most important market for Mexico's exports (88 percent in 1998) and the most important source of imports (74 percent).

Looking forward to 2000, the government projects that the current account deficit will be approximately US$15.4 billion, a figure that would constitute a manageable 3.1 percent of GDP, but that's an increase from the 2.8 percent estimated for 1999. The GOM official inflation target for 2000 is 10.0 percent. The yearly average exchange rate is forecast at 10.4 pesos/US$, which would be a modest depreciation from the average rate of 9.6 that prevailed in 1999. The GOM is targeting a fiscal deficit of only 1.0 percent of GDP, a decrease from the 1.25 percent deficit estimated for 1999..

Achieving these projections depends in a large part on strong oil prices. The higher than expected GDP growth rate in 1999 and the strength of the trade account are largely attributable to the rise in oil prices . Moreover, the GOM receives nearly one-third of its revenues from oil. The GOM used US$16.0 per barrel to prepare the 2000 budget, a very reasonable target price given that the agreement to limit supply by the main exporting countries is likely to be extended for a good part of 2000. The price of the Mexican crude closed at US$22.32 in December 1999. (NOTE: Mexican crude oil is a lower grade than North Brent crude.)

These reasons for optimism notwithstanding, it's important to note that the Mexican market tends to overreact to good or bad news and could be adversely affected by external or internal shocks. In particular, the Mexican economy is susceptible to U.S. economic conditions. A significant downtown in the U.S. economy, a large sustained correction in the U.S. equities market, or a pronounced increase in U.S. interest rates, could all trigger a downturn in Mexico. Internal politics also could present a threat to the economy. Mexico will be holding elections in July and the country has a history of economic turmoil in the year of or following elections.

In turning to the outlook for oranges in particular, the orange production forecast for MY 1999 has been revised upward to 3.1 MMT, but it still reflects a decrease in production due to drier than normal weather during the first semester of 1999 that reduced yields in some producing areas, followed by heavy rains in the fall that damaged production in other areas. The forecast for frozen concentrate orange juice (FCOJ) production remains unchanged at similar levels to those of the previous year. Therefore, exports of FCOJ are also expected to be low.

SECTION II. STATISTICAL TABLES

FRESH ORANGE PRODUCTION TABLE

PSD Table						
Country	**Mexico**					
Commodity	**Fresh Oranges**		(HECTARES) (1000 TREES) (1000 MT)			
	Revised 1997		Preliminary 1998		Forecast 1999	
	Old	New	Old	New	Old	New
Market Year Begin	**11/1997**		**11/1998**		**11/1999**	
Area Planted	330180	330180	331000	324000	332000	325000
Area Harvested	305750	305750	306000	299000	307000	300000
Bearing Trees	61760	61760	61810	60395	62000	60600
Non-Bearing Trees	4930	4930	5050	5050	5050	5050
TOTAL No. Of Trees	66690	66690	66860	65445	67050	65650
Production	3331	**3331**	2950	**2903**	3000	**3100**
Imports	20	20	21	20	22	22
TOTAL SUPPLY	3351	**3351**	2971	**2923**	3022	**3122**
Exports	9	9	50	50	9	9
Fresh Dom. Consumption	2642	2642	2551	2513	2653	2753
Processing	700	700	370	360	360	360
TOTAL DISTRIBUTION	3351	**3351**	2971	**2923**	3022	**3122**

FROZEN CONCENTRATE ORANGE JUICE TABLE

PSD Table						
Country	**Mexico**			**65**	**Degrees Brix**	
Commodity	**Juice, Orange**					**(MT)**
	Revised 1998		Preliminary 1999		Forecast 2000	
	Old	New	Old	New	Old	New
Market Year Begin	**01/1998**		**01/1999**		**01/2000**	
Deliv. To Processors	700000	700000	370000	360000	360000	360000
Beginning Stocks	3000	3000	5900	5900	3000	3000
Production	70000	**70000**	37000	**36000**	36000	**36000**
Imports	1	1	1	1	1	1
TOTAL SUPPLY	73001	**73001**	42901	**41901**	39001	**39001**
Exports	64001	64001	36751	35751	32851	32851
Domestic Consumption	3100	3100	3150	3150	3150	3150
Ending Stocks	5900	5900	3000	3000	3000	3000
TOTAL DISTRIBUTION	73001	**73001**	42901	**41901**	39001	**39001**

Trade Matrixes

FRESH ORANGES

ORANGES		UNITS: ***METRIC TONS***	
EXPORTS FOR 1999 TO:		**IMPORTS FOR 1999 FROM:**	
U.S.	47,662	U.S.	19,481
OTHER		OTHER	
ARGENTINA	385		0
TOTAL OF OTHER	385	TOTAL OF OTHER	0
OTHERS NOT LISTED	623	OTHERS NOT LISTED	0
GRAND TOTAL	48,670	GRAND TOTAL	19,481

SOURCE: 1993, 2000. Global Trade Information Services, Inc. "World Trade Atlas" Mexico Edition, Jan 2000.

FRESH CONCENTRATE ORANGE JUICE

FROZEN CONCENTRATE ORANGE JUICE HTS. 2009.11.01			UNITS: ***KILOGRAMS* & LITERS*****		
EXPORTS FOR 1999 TO:			**IMPORTS FOR 1999 FROM:**		
U.S.	26,458,749	*	U.S.	574,585	**
OTHER			OTHER		
DOMINICAN REP.	3,933,447	*	CUBA	54,315	**
TOTAL OF OTHER	3,933,447	*	TOTAL OF OTHER	54,315	**
OTHERS NOT LISTED	0	*	OTHERS NOT LISTED	71	**
GRAND TOTAL	33,105,545	*	GRAND TOTAL	628,971	**

SOURCE: 1993, 2000. Global Trade Information Services, Inc. "World Trade Atlas" Mexico Edition, Jan 2000.

ORANGE JUICE NOT FROZEN HTS. 2009.19.01			UNITS: ***KILOGRAMS* & LITERS*****		
EXPORTS FOR 1999 TO:			**IMPORTS FOR 1999 FROM:**		
U.S.	11,782,759	*	U.S.	2,677,495	**
OTHER			OTHER		
ISRAEL	543,279	*		0	**
TOTAL OF OTHER	543,279	*	TOTAL OF OTHER	0	**
OTHERS NOT LISTED	0	*	OTHERS NOT LISTED	0	**
GRAND TOTAL	13,679,154	*	GRAND TOTAL	2,677,495	**

SOURCE: 1993, 2000. Global Trade Information Services, Inc. "World Trade Atlas" Mexico Edition, Jan 2000.

Fresh Orange Prices

WHOLESALE ORANGE PRICES			
Month	1998	1999	Change %
January	0.94	1.35	43.62
February	0.90	1.39	54.44
March	0.95	1.46	53.68
April	1.03	2.48	140.78
May	1.41	1.83	29.79
June	2.74	2.66	(2.92)
July	2.93	2.98	1.71
August	2.97	3.20	7.74
September	2.75	2.84	3.27
October	2.33	2.66	14.16
November	1.52	1.68	10.53
December	1.45	1.59	9.66

SOURCE: SERVICIO NACIONAL DE INFORMACION DE MERCADOS
AVR. EXCHANGE RATE FOR 1998 US$1.00 = $ 9.15 PESOS
AVR. EXCHANGE RATE FOR 1999 US$1.00 = $ 9.55 PESOS

WHOLESALE ORANGE PRICES			
Month	1999	2000	Change %
January	1.35	1.43	5.93
February	1.39	1.40	0.72
March	1.46	1.43	(2.05)
April	2.48	1.64	(33.87)
May	1.83	N/A	N/A
June	2.66	N/A	N/A
July	2.98	N/A	N/A
August	3.20	N/A	N/A
September	2.84	N/A	N/A
October	2.66	N/A	N/A
November	1.68	N/A	N/A
December	1.59	N/A	N/A

SOURCE: SERVICIO NACIONAL DE INFORMACION DE MERCADOS
AVR. EXCHANGE RATE FOR 1999 US$1.00 = $ 9.55 PESOS
EXCHANGE RATE (APRIL 28, 2000) US$1.00 = $ 9.45 PESOS

SECTION III. NARRATIVE ON SUPPLY & DEMAND, POLICY &MARKETING

FRESH ORANGES

PRODUCTION

The fresh orange production forecast for marketing year 1999/2000 (November-October) has been revised upward to 3.1 MMT. Official initial estimates place total production about 20 percent higher, but private sources estimate that some product in Veracruz was damaged by the floods and heavy rains in October 1999, thereby decreasing production from an average of 1.5 to almost 1.2 MMT. As a result, there were less oranges for the early orange harvest. Also, dry weather in Nuevo Leon decreased the Valencia orange production from an average of 224,000 MT to 150,000 MT. Producers indicated, however, that better weather during the second and third blooms (January and May) could bring higher than normal production for the second and third orange harvests (May to August). Fruit from second and third blooms, however, is not as sweet as that from the first crop and those oranges are not suitable for the processing industry. Orange production for MY 1998 has been revised downward based on recent official data. Oranges destined for processing for MY 1998 were also revised downward to 360,000 MT based on industry information.

Area planted and harvested for MY 1999 have been revised downward according to recent information. Countrywide, orange yields for MY 1999 are expected to be at 10.3 MT/Ha. Also, area planted and harvested for MY 1998 have been revised downward based on recent official data.

Grower prices at the farm gate for MY 1999 began in October at approximately 600 to 650 pesos/MT (US$61.85 to $67.00/MT) for the early varieties, and jumped to approximately 900 to 1,000 pesos/MT (US$94.70 to $105/MT) in late December and January 2000. As expected, there were less oranges available for the processing industry.

Wholesale prices have been rising steadily for the first semester of 2000 as usual, but have not risen as high as had been expected. Retail prices for oranges have decreased from 5.50 to 6.50 pesos/Kg (US$0.56 to $0.67/Kg) in October 1999, to a more normal level of approximately 3.50 to 3.80 pesos/kg (US$0.37 to $0.40/kg) from January to April. During 1999, retail prices were somewhat similar during the first quarter: $2.90 pesos/Kg (US$0.31/Kg) in January; $3.50 pesos/Kg (US$0.37/Kg) in February; and $4.00 pesos/Kg (US$0.43/Kg) in March. Most of the oranges in the fresh market are destined for domestic fresh squeezed juice.

Transportation costs to Mexico City are usually 2,500 to 3,000 pesos per 10 MT (US$257.70 to 309.27 per 10 MT), with same day delivering.

CONSUMPTION

The fresh orange consumption forecast for MY 1999 has been revised upward based on recent data. Final consumption estimates, however, will depend on the final volume purchased by the industry and the fruit loss due to the heavy rains in Veracruz and dry weather in Nuevo Leon. Consumption estimates for MY 1998 were revised downward based on most recent official information. Over 99 percent of the total demand for citrus fruits in Mexico is covered by domestic production. Imports account for less than 1 percent of the market.

TRADE

Mexican orange imports are growing slowly. U.S. orange exports to Mexico could expand significantly given the decrease in the Mexican tariff and the possibilities for California, Texas and Arizona to ship to Mexico. The import forecast for MY 1999 is still expected to increase a 10 percent over MY 1998 imports. The orange import estimates for MY 1998 were revised downward to 20,000 MT based on recent trade data. The MY 1999 forecast for Mexican orange exports remains unchanged at a volume closer to MY 1997 because California's production has recovered (See report MX9159). The United States will continue to be the largest export market for Mexican oranges. The northern state of Sonora is the source of most of the exported oranges. During 1999 Mexican oranges were available in the U.S. market from approximately March to June and prices ranged from US$0.70 to $1.00/Kg.

MARKETING

The marketing situation for oranges and citrus fruit in general remains unchanged from FAS/Mexico's report MX9159. U.S. citrus fruit exporters should be aware of the fact that the Mexican market is more price sensitive than quality sensitive. This is one of the main reasons for limited exports of U.S. citrus products. Despite the excellent quality, prices are 4 to 5 times higher than Mexican products. Some attempts have been made by U.S. firms to enter the market, but they have had limited success because of strategies emphasized quality rather than price.

FROZEN CONCENTRATE ORANGE JUICE (FCOJ)

PRODUCTION

Frozen concentrate orange juice (FCOJ) production forecast for MY 2000 (January/December) remains unchanged. According to the industry there were fewer oranges due to the dry weather in the northern states and excessive rainfall in the southeast states in Mexico. Approximately four to five plants of the total of twenty-three FCOJ processing plants operated during the season. According to sources, some of the other plants could not operate due to a lack of financing and increasing costs of production. Furthermore, the strong peso against the dollar that has prevailed in 2000 has not helped the export industry. Juice production depends heavily on the international price of FCOJ. The international price for FCOJ future contracts for 2000 deliveries began at approximately US$0.87 per pound, and since have decreased to approximately US$0.82 to US$0.83 per pound by March/April 2000. Lower international prices represents smaller margins for the industry to buy local fruit. FCOJ production estimates for MY 1999 have been revised downward as a result of lower availability of fruit and low international prices.

Due to dry weather in Nuevo Leon and floods and heavy rains in Veracruz, the industry began buying fruit FOB plant at 250 pesos/MT (US$25.77/MT) at the end of 1999. According to the industry, however, by February/March prices rose to approximately 650 to 750 pesos/MT or more (US$68.40 to $78.95/MT) because of limited supplies of fruit.

CONSUMPTION

Industry sources estimate that FCOJ consumption for MY 2000 will be similar to that of MY 1999 because supplies will also be short. Besides, the majority of Mexican consumers prefer and demand fresh squeezed juice instead of processed orange juice.

TRADE

The export estimate for FCOJ for MY 2000 remains unchanged. Exports would likely exceed the estimate, however, if the supply of fruit exceeds the current forecast. According to industry sources, Mexico will fill 100 percent of the 2000 U.S. quota. The export estimates for MY 1999 were revised downward based on recent official trade data.

OTHER TRADE AGREEMENTS

A free trade agreement was signed between Mexico and the European Union (EU) and is scheduled to go into effect on July 1, 2000. This agreement is expected to strengthen Mexico's presence its strategic position in the world trade. Among the agricultural products negotiated in the agreement is fresh orange juice and FCOJ. The EU will allow 1,000 MT of fresh orange juice under a quota access to the EU market. The tariff will be 50 percent under the MFN or GPS duties applicable at the time of import as of July 1, 2000. Also, the EU will allow 30,000 MT of FCOJ under a quota with a tariff 25 percent under the MFN or GPS duties applicable at the time of import as of July 1, 2000. The FCOJ must have a concentration of 20 degrees brix with a density above 1.089 grams per cubic centimeter.

Also, Mexico signed on March 6, 2000, a free trade agreement with Israel. The final legal review and the Mexican Senate approval, however, are still underway. Among the agricultural products negotiated in the agreement with Israel are unlimited exports of Mexican fresh oranges and FCOJ. Since Israel imports these products from other sources, it is uncertain what amount Mexico will be able to export.